

**IOWA RACING AND GAMING COMMISSION
MINUTES
JANUARY 4-5, 2017**

The Iowa Racing and Gaming Commission met on Wednesday and Thursday, January 4-5, 2017 at the Isle Casino Hotel Waterloo (IOC Waterloo), Waterloo, Iowa. Commission members present were Richard Arnold, Chair; Kris Kramer, Vice Chair; and members Carl Heinrich and Jeff Lamberti. Commissioner Dolores Mertz was excused.

Chair Arnold called the meeting to order at 5:30 PM on Wednesday, January 4th, and moved to the approval of the agenda. Commissioner Heinrich moved to approve the agenda as presented. Commissioner Kramer seconded the motion, which carried unanimously.

Chair Arnold moved to Executive Session and requested a motion. Commissioner Lamberti moved to go into Executive Session pursuant to Iowa Code Sections 21.5(1)a, d, and g for the purpose of receiving Division of Criminal Investigation background reports on Z Capital. Commissioner Kramer seconded the motion, which carried unanimously on a roll call vote.

Upon the conclusion of Executive Session, Commissioner Lamberti moved to leave Executive Session. Commissioner Kramer seconded the motion, which carried unanimously. Chair Arnold advised the meeting was recessed until 8:30 AM on January 5th.

Chair Arnold reconvened the meeting at 8:30 AM, and advised the agenda had been approved as presented. He moved to the Welcome. Todd Connelly, General Manager, welcomed everyone to Waterloo. He noted the facility has been open for 9½ years and is looking forward to celebrating their ten year anniversary in late June. He introduced Tim Hurley, President of the Black Hawk County Gaming Association (BHC GA).

Mr. Hurley welcomed the Commission to Waterloo and the Cedar Valley. He noted several members of the BHC GA were in attendance, and advised there is a wide diversity in their backgrounds and experiences. He stated they all have deep ties to the community and a long and sustaining history of involvement in local commissions, agencies and institutions that serve the less privileged in the area. Mr. Hurley noted BHC GA made changes to the By-Laws at the recommendation of the Commission, but the most important and scariest was changes to the term limits. He advised there has been a 2/3 turnover in the last two years in board membership, and a complete turnover will occur by June. Mr. Hurley stated the new board members have provided new insights and expertise and have made BHC GA stronger and better. He introduced Beth Knipp, the Executive Director for BHC GA, as the go-to person for the board as well as many of the other non-profits across the state for her knowledge and guidance.

Mr. Hurley stated BHC GA has funded or committed to fund 403 different projects for a total of just over \$36.25 million. Awards have gone to 49 different communities in the counties of Black Hawk, Bremer, Buchanan, Butler, Tama and Chickasaw. He advised awards are typically one-

third of a project's cost, and BHCGA's investment has leveraged another \$72 million in partnering investments or over \$180 million total in new facilities, programs, equipment and services, as well as new hope and community pride. Mr. Hurley stated he feels BHCGA stands out in the manner in which it accomplishes its goals partly due to the percentage of funds received from IOC Waterloo and the granting of quarterly awards which provides them with flexibility and the ability to meet the needs of the area. He listed several projects that have helped spur the re-development of downtown Waterloo, which is one of the primary goals of BHCGA. Mr. Hurley stated Ms. Knipp had distributed BHCGA's latest annual report to the Commission. Mr. Hurley introduced Mayor Quentin Hart.

Mayor Hart also welcomed the Commission to Waterloo, and acknowledged Mr. Connelly, noting he is very visible within the community and that the facility hosts many events for the community and surrounding areas. He stated the BHCGA board is focused and is a great group to work with. Mayor Hart stated that prior to serving on the city council and becoming mayor, he heard many arguments against gaming; however, he noted Waterloo would not have experienced the re-development that it has without the benefit of the gaming dollars. He stated that approximately eight years ago he started a program called "From the Heart" which brings youth from across the country to the community to volunteer to fix houses, etc. During the flood, the organization was able to leverage funds from BHCGA which allowed them to work on approximately 45 houses for peoples that did not have the necessary resources or ability to make repairs.

Chair Arnold thanked everyone for the hospitality, and moved to the approval of the minutes from the November 17, 2016 Commission meeting. Commissioner Kramer moved to approve the minutes as presented. Commissioner Heinrich seconded the motion, which carried unanimously.

Chair Arnold moved to Announcements and called on Brian Ohorilko, Administrator, of IRGC. Mr. Ohorilko provided the following information on future Commission meetings:

- February – No Meeting
- March 7, 2017 – Prairie Meadows Racetrack & Casino, Altoona, IA (Submissions due by February 21, 2017)
- April 13, 2017 – Harrah's, Council Bluffs, IA (Submissions due by March 30, 2017)
- May – No Meeting

Mr. Ohorilko noted the March meeting will be held on Tuesday, March 7 commencing at 8:30 AM at Prairie Meadows Racetrack & Casino. He advised the riverboat license renewals will come before the Commission at this meeting. He requested that a representative from each facility and non-profit be in attendance at the meeting.

Mr. Ohorilko advised the Request for Proposal (RFP) for companies interested in doing a market study for the Commission is posted on the Commission's website. The RFPs are due in the Commission's office by noon on February 24th. He also stated the application for Linn County is

on the website. Those submissions are due in the Commission's office by 3:00 PM on February 13th.

Mr. Ohorilko stated the economic impact reports for calendar year 2016 are due in the Commission's office by February 15th.

Mr. Ohorilko recognized the following staff members in attendance: Shirley Stokes and Shelly Sturch, Gaming Representatives at IOC Waterloo, and Cathy Dillon and Cheryl Vetsch, Licensing Assistants at Mystique Casino in Dubuque.

Chair Arnold moved to the rules before the Commission for final adopt and called on Mr. Ohorilko. He stated since the October meeting, the Commission has held a public hearing, and appeared before the Administrative Rules Review Committee. One individual attended the public hearing and advised, with regard to Item 18, that entities do not provide irrevocable surety bonds, but rather surety bonds. Mr. Ohorilko advised the change is reflected in the rules before the Commission. He stated the Rules Review Committee had some questions but no concerns. He requested approval of the final adoption of the rules.

Hearing no comments or questions concerning the rules, Chair Arnold requested a motion. Commissioner Heinrich moved to approve the final adoption of the rules as presented. Commissioner Kramer seconded the motion, which carried unanimously.

Chair Arnold called on Harvey's Iowa Management Company, Inc./Iowa West Racing Association d/b/a Horseshoe Casino/Bluffs Run Greyhound Park with regard to Caesar's Entertainment Corporation's request for shelf approval of debt financing. Lorraine May, legal counsel, advised the shelf approval and terms before the Commission is exactly what was approved three years ago, which would have expired due to the approval period. She requested approval of the renewal.

Hearing no comments or questions, Chair Arnold requested a motion. Commissioner Kramer moved to approve the shelf approval of debt financing. Commissioner Lamberti seconded the motion, which carried unanimously.

Chair Arnold called on Affinity Gaming. Ms. May, representing Z Capital, stated the purchase of Affinity Gaming by Z Capital is a positive move for the State of Iowa, noting she has worked with the management team the last four years. Ms. May advised Z Capital is a leading alternative asset management firm with \$2.2 billion in regulatory assets under management. She introduced the following leadership from Z Capital: Jim Zenni, the founder, President and Chief Executive Officer who has over 20 years of experience in the field; and Martin Auerbach, Senior Editing Director, General Counsel and Chief Compliance Officer.

Ms. May stated Z Capital Partners is the private equity portion of Z Capital as a whole and has significant restructuring expertise and actively works with management teams to enhance enterprise value with a long history of successful growth. She noted Z Capital has been invested in Affinity Gaming since 2009; Mr. Zenni and Z Capital were backgrounded and found suitable

in 2012. They currently own approximately 42% of Affinity Management, and are the largest shareholder. Ms. May discussed the financial structure of the purchase. She advised that following the completion of the transaction, the only changes would be that Z Capital Partners and management would own 100% of the stock of Affinity Gaming, providing a unified leadership committed to growth and a better relationship with the qualified sponsoring organization, Clarke County Development Corporation (CCDC), with a focus on the future of the facility and the community. Ms. May stated CCDC and Z Capital have reached an agreement in principle to resolve the differences. The parties will be sitting down and re-writing all of the contracts relevant to the transaction with a plan of having them to the Commission in time for consideration at the March meeting.

Ms. May called on Doug Gross, legal counsel for CCDC, for his comments. Mr. Gross stated CCDC appreciates the opportunity to work with a new group and reaffirmed that the parties have reached a conceptual agreement to resolve the differences on a permanent basis. He thanked the Commission for their efforts and patience in working with CCDC to reach this goal.

Ms. May stated the financing for the transaction is committed and ready to go upon the Commission's approval of the submitted contracts. She advised the shareholders have approved the transaction, and approvals have been received from Colorado and Missouri. The transaction will be before Nevada within the next week. The goal is to have all regulatory approvals and close the transaction by the end of the month. Ms. May requested the Commission's approval of Z Capital's stock purchase of Affinity Gaming.

Commissioner Lamberti clarified that the transaction would occur quickly after receiving approval from Nevada. Ms. May answered in the affirmative. Mr. Auerbach stated they are projecting January 31st.

Commissioner Lamberti stated it has been a long road in terms of resolving the issues in Osceola, but is encouraged by the news that the parties have reached an agreement to re-write the necessary agreements. He noted the individuals from Z Capital have been approved previously and the Commission received an update as part of this process and advised there was nothing but stellar reviews of the company and individuals involved. He stated the Commission is looking forward to having Z Capital in charge. Commissioner Lamberti moved to approve the Z Capital Stock Purchase.

Commissioner Heinrich asked if all issues would be resolved by March. Mr. Auerbach stated that was Z Capital's expectations. He advised he has made numerous trips to Iowa the last two years, and is looking forward to a significant change in the dynamics of the relationship between Z Capital and CCDC. He stated he will be returning to Iowa in early February for a documentation session.

Chair Arnold called on Mr. Gross for any additional comments. Mr. Gross concurred with the earlier statements that the documents will be completed in final form for submission as part of the license renewal at the March meeting. He advised the parties have had thorough discussions

about the material elements of the agreements and there is a full understanding of what those documents will include. He recommended approval of the transaction.

Commissioner Heinrich seconded the motion, which carried unanimously.

Chair Arnold moved to the contracts submitted as part of this transaction. Marc Rubenstein, General Counsel for Affinity, presented the following contracts for Commission approval:

- Amendment to First Lien Term Loan
- Second Lien to Term Loan Facility

Mr. Rubenstein advised these are the financing documents that will become effective with the merger. He stated Z Capital is upsizing the term loan previously approved in the amount of \$300 million to \$330 million and are adding a second lien term loan. Mr. Rubenstein advised the documents are virtually identical to documents previously approved by the Commission.

Ms. May stated it is possible there could be a reduction in the interest rate. She requested that the documents be approved with the caveat there could be some fluctuation in the interest rate.

Commissioner Lamberti moved to approve the amendment of the first lien term loan and the approval of the second lien term loan facility with the caveat there could be a reduction in the interest rate. Commissioner Kramer seconded the motion, which carried unanimously.

Chair Arnold moved to the contract approvals and called on Wild Rose Clinton, LLC (WRC). Steve Nauman, General Manager, presented the following contracts for Commission approval:

- Cummins-Allison – Purchase of New JetScan MPS
- USA Security – Upgrading and Replacing Surveillance Equipment

Hearing no comments or questions concerning the contracts, Chair Arnold requested a motion. Commissioner Kramer moved to approve the contracts as submitted by WRC. Commissioner Heinrich seconded the motion, which carried unanimously.

Chair Arnold called on Diamond Jo Worth, LLC (DJW). Kim Pang, General Manager presented a contract with Cummins-Allison Corp. for the purchase of equipment and maintenance contracts for equipment in the Cage and Soft Count areas of the facility.

Hearing no comments or questions, Chair Arnold requested a motion. Commissioner Heinrich moved to approve the contract as submitted by DJW. Commissioner Lamberti seconded the motion, which carried unanimously.

Chair Arnold called on IOC Waterloo. Mr. Connelly presented the following contracts for Commission approval:

- Gitchi Gaming, Inc. – Slot Chair Vendor
- Atlantic Bottling Company – Coca-Cola Vendor/Beverage Vendor

Commissioner Lamberti stated the Commission has seen a trend by the facilities over time, particularly those with multiple locations in multiple jurisdictions, of selecting non-Iowa vendors that is being driven by corporate directing that a specific vendor be utilized. He indicated that is OK at one level, such as large purchases of IT equipment, etc., where it is unlikely the facility would be able to show that an Iowa vendor could compete due to the size and scope of the buying power. However, with the purchase of slot chairs, the Commission is aware there are Iowa vendors and he would like to see some demonstration of costs beyond a corporate contract. Commissioner Lamberti stated this may require the local general managers to advise corporate that requiring a specific vendor be utilized may not be sufficient due to the requirement to utilize Iowa vendors. He stated he would like to see documentation that there is a cost benefit to the facility.

Hearing no further comments or questions, Chair Arnold requested a motion. Commissioner Lamberti moved to approve the contracts as submitted by IOC Waterloo. Commissioner Kramer seconded the motion, which carried unanimously.

Chair Arnold called on IOC Bettendorf, L.C. (IOCB). Nancy Ballenger, General Manager, presented the following contracts for Commission approval:

- Allamakee New Beginnings (Iowa Food Hub) – Vendor Provides Locally Sourced Meat and Dairy Products
- Brintons Americas – Carpet Manufacturer and Distributor
- Lithographic Communications – Marketing, Printing, Direct Mail, and Postage Services
- Middle Mile Productions, LLC – Marketing Advertising Agency Producing Television and Radio Commercials

Hearing no comments or questions concerning the contracts, Chair Arnold requested a motion. Commissioner Heinrich moved to approve the contracts as submitted by IOCB. Commissioner Kramer seconded the motion, which carried unanimously.

Chair Arnold called on Prairie Meadows Racetrack & Casino (PMR&C). Gary Palmer, General Manager, presented the following contracts for Commission approval:

- Crane Payment Innovations (CPI) – Purchase of MEI Advance Bill Acceptors and Easitrax Soft Count System
- Data Business Equipment – Cash Handling Equipment
- Optiv Security – Purchase of Varonis Software to Identify Sensitive Data Locations in Network, etc.

Chair Arnold called on Harveys Iowa Management Co., Inc. (Harrah's). Janae Sternberg, Director of Finance, presented a contract with Global Payments Gaming Svcs., Inc. to provide check verification and credit card advance transactions.

Hearing no comments or questions concerning the contract, Chair Arnold requested a motion. Commissioner Lamberti moved to approve the contract as submitted by Harrah's. Commissioner Heinrich seconded the motion, which carried unanimously.

Chair Arnold called on Iowa West Racing Association d/b/a Horseshoe Casino/Bluffs Run Greyhound Park (IWRA d/b/a Horseshoe Casino/BRGP). Ms. May advised the facility has submitted a service/management agreement for simulcasting of dog and horse races at Horseshoe Casino, which would provide a new entertainment opportunity for the community. She requested approval of the contract.

Commissioner Lamberti noted there had been some concern as to the wording of the contract between Commission staff, the Attorney General's Office, etc. which have been resolved. Commissioner Lamberti moved to approve the management contract between IWRA d/b/a Horseshoe Casino/BRGP and William Hill Race and Sports Book for simulcasting conditioned upon:

- William Hill being found suitable by IRGC, and
- The approval of operating procedures and controls by IRGC staff prior to accepting wagers.

Commissioner Kramer seconded the motion, which carried unanimously.

Chair Arnold moved to the contracts submitted by IWRA d/b/a Horseshoe Casino/BRGP. Ms. Sternberg presented the following contracts for Commission approval:

- Global Payments Gaming Svcs. Inc. – Check Verification and Credit Card Advance Transaction Provider
- OS Sales (Omaha Steaks) – Meat Supplier
- Premier Midwest Beverage – Beverage Supplier
- Tipping Point Gaming – Slot Machine Hardware/Software Supplier

Hearing no comments or questions concerning the contracts, Chair Arnold requested a motion. Commissioner Heinrich moved to approve the contracts as submitted by IWRA d/b/a Horseshoe Casino/BRGP.

Chair Arnold called on Iowa Greyhound Park (IGP). Brian Carpenter, General Manager and Director of Racing, provided the following recap concerning the 2016 live race meet: The live meet ran from May 14 through October 22 for 24 weeks of racing with 96 performances; they ran 15 race cards Wednesday, Friday, Saturday and Sunday. The facility had four major stakes races; the Iowa Breeders Cup had 104 entries and was won by RF River from the Superior Kennel. Mr. Carpenter advised IGP paid out just over \$2 million in purse supplements for the season. They had ten kennels with nine being Iowa-based. He noted simulcast wagering was offered during the off-season on Friday, Saturday and Sunday, and during live racing simulcast wagering was available Wednesday through Sunday. The largest handle day was the Kentucky Derby; other big days were opening day, July 4th weekend, and closing day of live racing.

Attendance was just over 275,000; some of the larger draws for attendance were the greyhound adoption day and the kids' day. The on-track live handle was up 4% from 2015; live export handle was up 54%; and the horse and greyhound import combined was up 23%. Mr. Carpenter advised the facility is a long way from being able to meet all of the financial expenses on their own, but are headed in the right direction.

Mr. Carpenter stated the facility has started, or finished, some of the following projects for the 2017 live race meet: improvements to the grandstand, added TVs to the tables located in the back of the grandstand for those unable to see the live races, added TVs down the middle of the grandstand for live racing and any sporting events; added two self-teller machines at the far end to make it easier for people to place bets; and are still considering ideas for the outside area. Mr. Carpenter advised the improvements can be found on the facility's website: igaracing.com.

Chair Arnold moved to the request for approval of a pari-mutuel management contract/service agreement with William Hill Race and Sports Book for simulcasting. Hearing no comments concerning the agreement, he requested a motion.

Commissioner Kramer moved to approve the management agreement between the Iowa Greyhound Association and William Hill Race and Sports Book for simulcasting conditioned upon:

- William Hill being found suitable by IRGC,
- Submission and approval by IRGC of any agreements with 99F licensees, and
- The approval of operating procedures and controls by IRGC staff prior to accepting wagers.

Commissioner Lamberti seconded the motion, which carried unanimously.

Mr. Carpenter presented the following contracts for Commission approval:

- Sport View Television Corp. – Television Control Center, Monitor System, Cameras and Technical Support for Live Racing
- Sportech Racing, LLC – Tote System
- Quilty Law Firm – Legal Services
- HBPA Agreement

Hearing no comments or questions concerning the contracts, Chair Arnold requested a motion. Commissioner Kramer moved to approve the contracts as submitted. Commissioner Heinrich seconded the motion, which carried unanimously.

Chair Arnold moved to the hearing for Dubuque Racing Association, Ltd. (DRA) for a violation of Iowa Code §99F.9(4) (Minor). Mr. Ohorilko advised Commission staff and DRA have entered into a Stipulated Agreement. On August 17th and 18th, a minor entered the gaming floor unchallenged, was on the floor for over 30 minutes and gambled which triggered the referral to the Commission. He noted the minor had entered the floor on two previous occasions where the

conditions for a referral were not met. Mr. Ohorilko stated that as a result of the violation Mystique has agreed to pay an administrative penalty of \$20,000. Additionally, they have agreed to provide a course on ID training, which Mr. Ohorilko confirmed has already been conducted by a Dubuque police corporal. He recommended approval of the Stipulated Agreement.

Brian Rakestraw, Assistant General Manager, advised that Tom Hiatt, Director of Security was also present. Mr. Rakestraw stated the facility takes these types of incidents very seriously. He indicated the facility was informed this same individual was out in the parking lot breaking into cars. They were informed the individual was a minor after they were arrested. Mr. Rakestraw stated Mystique does have policies and procedures in place to prevent minors gaining access to the gaming floor, but in this instance, one of the guards felt the individual was of age and did not follow the policies and procedures or utilize the tools in place. The team members involved in this incident have been disciplined. Mr. Rakestraw confirmed the additional training had taken place, and advised management stresses to staff the importance of following established policies and procedures and utilizing the tools available to them to try and prevent these situations from occurring.

Mr. Hiatt advised staff training was conducted following this incident, and he spoke directly with everyone in the Security Department to stress the seriousness of this situation. He stated he had trained the individual from the police department that came to the facility and provided the ID training. Mr. Hiatt stated the surveillance department is conducting audits of the various entrance podiums and will notify him if they see something amiss. He advised he is also attempting to locate younger looking individuals to come to the facility to see if they will be challenged before being granted access to the gaming floor. Additionally, "buzz reports" are given at the start of the various shifts to make sure everyone is aware of the promotions for the day and the importance of preventing minors from gaining access to the gaming floor.

Hearing no comments or questions concerning the Stipulated Agreement, Chair Arnold requested a motion. Commissioner Lamberti moved to approve the proposed Stipulated Agreement with an administrative penalty of \$20,000. Commissioner Kramer seconded the motion, which carried unanimously.

Chair Arnold moved to Public Comment. Jon Moss, Executive Director of the Iowa Horsemen's Benevolent and Protective Association (IHBPA), stated he wished to address an on-going situation that has occurred since the passage of the Advanced Deposit Wagering (ADW) legislation in 2011 which allowed Iowans to wager on horse racing through the internet. He noted horse racing is unique in that it can be wagered on on-line, partially through the Interstate Horse Racing Act. Mr. Moss stated it was the IHBPA's understanding when the legislation was passed that any illegal or unlicensed operators of ADW companies would be required to comply with the law. He stated the IHBPA has attempted work with IRGC, but has had minimal response to their concerns. Mr. Moss stated the unlicensed ADW companies are not complying with the self-trespass list, debt offset, or the licensing requirement, which is a Class D felony. He indicated the companies would be adding tax evasion to the list starting this year as the Attorney General has stated that all ADW activity is taxable. Mr. Moss questioned how many

offenses would have to occur before the IRGC or the Attorney General's Office would take action against the ADW companies for not complying with the law. He stated the Legislature passed the ADW law with the understanding that these companies would come into compliance and be regulated. Mr. Moss indicated this matter not only affects Iowa with regard to horse racing, but any potential online gaming that is authorized in the future. He requested that the Commission reach out to the Attorney General's Office to try and reach a solution in order to get the companies to comply with the law and get licensed in Iowa.

Commissioner Lamberti stated the Commission is aware of the situation, but indicated the issue is a complex one and there are issues about how the legislation was prepared. He indicated the Commission staff is continuing to work with legal counsel.

Mr. Moss stated when the IHBPA had issues previously they approached the Commission and felt some of those issues had been worked through. He indicated if there are additional areas that need to be addressed and brought back to the legislative body, the IHBPA, with the Commission's guidance, would be supportive of the changes. He indicated the IHBPA is willing to do whatever is needed to bring this matter to a conclusion.

Chair Arnold moved to Administrative Business. Mr. Ohorilko noted this meeting was the last one for Karyl Jones as she is retiring the following day. He noted Karyl has been with the Commission 30 years. Mr. Ohorilko stated Karyl loves what she does; the relationships with the employees, the Commissioners and those within the industry. He described her as a loyal, honest and hard-working employee. He noted she has worked under every Commissioner appointed to the Commission and every administrator. Mr. Ohorilko thanked Karyl for her dedication, indicating that she would be missed. He presented her with a plaque which read "Karyl Jones – In recognition of your dedicated service to the Iowa Racing and Gaming Commission from December 12, 1986 to January 6, 2017."

Ms. Jones thanked the Iowa Gaming Association for their recognition of her during their meeting the previous evening. She stated she was thankful for the opportunity to work with a lot of great people and enjoyed her time at the Commission, indicating that she loved going to work. She thanked everyone for making her time enjoyable.

Commissioner Arnold congratulated Ms. Jones on her retirement and wished her the best of luck in the future and thanked her for her service.

Commissioner Lamberti congratulated Ms. Jones as well, noting her retirement won't be as pronounced for the Commission members as for the staff who have become dependent on her being there to take care of issues; however, he feels everyone is in good hands and will move forward.

Hearing no further business to come before the Commission, Chair Arnold requested a motion to adjourn. Commissioner Heinrich so moved. Commissioner Kramer seconded the motion, which carried unanimously.

MINUTES TAKEN BY:

JULIE D. HERRICK